NIHON

NIHON IMPEX PRIVATE LIMITED

ASSET LIABILITY MANAGEMENT POLICY

INTRODUCTION

Nihon Impex Private Limited (hereinafter referred to as the 'Company'), being a non-deposit taking NBFC is exposed to several risks in the course of its business such as credit risk, interest rate risk, liquidity risk and operational risk, etc., which require comprehensive risk management system & process.

Reserve Bank of India, has, from time to time, emphasized the need to address these risks, in a structured manner by upgrading the risk management systems, practices and procedures and for adopting more comprehensive asset liability management practices. It is therefore important to have effective risk management systems that address the issues inter-alia, related to interest rate and liquidity risks.

Asset Liability Management (ALM) can be termed as a risk management technique designed to earn an adequate return while maintaining a comfortable surplus of assets over liabilities. It takes into consideration interest rates, earning power and degree of willingness to take on debt and hence is also known as Surplus Management. ALM, among other functions, is also concerned with risk management and provides a comprehensive as well as dynamic framework for measuring, monitoring and managing liquidity and interest rate risks of major operators in the financial system, that need to be closely integrated with the Company's business strategy.

Thus, ALM is an integral part of the financial management process of the Company. It is concerned with strategic balance sheet management, involving risks caused by changes in the interest rates, exchange rates and the liquidity position of the Company. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

SCOPE OF THE POLICY

The purpose of this ALM Policy is to establish guidelines to ensure prudent management of assets and liabilities for Nihon Impex Private Limited. These policy guidelines address management and reporting of capital, liquidity and interest rate risk.

This Policy has been framed in accordance with the Master Direction- Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and to the extent applicable the "Guidelines for Asset Liability Management (ALM) system in NBFCs" issued by the Reserve Bank of India (RBI) (hereinafter referred to as

"the RBI Directions").

ALM PROCESS

The ALM process would rest on three pillars:

A. ALM Information Systems

- Management Information Systems
- Information availability, accuracy, adequacy and expediency

B. ALM Organization

- Structure and responsibilities.
- Level of senior management involvement.

C. ALM Process

- Risk parameters
- Risk identification, measurement & mitigation
- Risk policies and tolerance levels.

A. ALM Information Systems

ALM has to be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. This framework needs to be built on sound methodology with necessary information system as back up. Thus, information is the key to the ALM process. There are various methods prevalent world-wide for measuring risks. These range from the simple Gap Statement to extremely sophisticate and data intensive Risk Adjusted Profitability Measurement methods.

However, though the central element for the entire ALM exercise is the availability of adequate and accurate information with expedience; and the systems existing. Adequate measures are to be taken to collect accurate data in a timely manner through full scale computerisation.

B. ALM Organization

Successful implementation of the risk management process requires strong commitment on the part of the senior management to integrate basic operations and strategic decision making with risk management. The Board of Directors of the Company will have the overall supervision on management of risk and shall decide the risk management policy of the organization and set limits for capital management, interest rates and

liquidity through the ALM Process. The organizational structure for Asset-Liability Management would be as follows:

Asset Liability Management Committee (ALCO)
The ALCO shall be headed by Managing Director and the members shall include Executive Director / Chief Financial Officer /General Manager(s). ALCO is responsible for implementing ALM policies and for managing the liquidity risk as well as interest-rate risks.

ALCO would meet every quarter and minimum 3 members including the Committee Chairman shall be the quorum for the meeting. The Committee shall review the cash flows as well as the prevailing interest rate scenario, its likely impact on the profitability and the steps to be initiated for effectively meeting the liabilities on the due dates. ALCO would also be responsible for ensuring adherence of limits set by the Board as well as deciding business strategies of the Company in line with the overall budget and risk management policy and shall review/decide the following:

- Review of Liquidity mismatches
- Review of Interest-Rate Sensitivity position
- Stress testing of loan portfolio
- Decision on capital/fund raising and deployment vis-a-vis Cost of borrowings/ Yields on advances
- Review of the product mix and product pricing
- Strategies for deployment of surplus funds

C. ALM Process
The scope of ALM function would include the following:
- Liquidity risk management
- Interest risk management
- Capital management

Out of the above-mentioned functions, the most important functions of ALM are management of liquidity and interest rate risks. Considering the volatility of such risks, certain limit/parameters as per RBI norms are required to be fixed for preparation/submission of ALM statement to RBI.

LIQUIDITY RISK MANAGEMENT

Measuring and managing liquidity needs are vital for effective operation of company. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. The ALM Support Group will be analyzing and monitoring liquidity

position of the company and in case of any adverse situation, will report to ALCO.

The Company's management will measure not only the liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Past experience of the market shows that assets commonly considered as liquid, like Government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity should be tracked through maturity or cash flow mismatches.

The Maturity Profile based on ALM - II could be used for measuring the future cash flows of company in different time buckets. The time buckets, may be distributed as under:

i) 1 day to 7 days
ii) 8 days to 14 days
iii) 15 days to 30/31 days (One month)
iv) Over one month and upto 2 months
v) Over two months and upto 3 months
vi) Over 3 months and upto 6 months
vii) Over 6 months and upto 1 year
viii) Over 1 year and upto 3 years
ix) Over 3 years and upto 5 years
x) Over 5 years

As Company does not hold public deposits, all the investment securities would fall in the category of 'non-mandatory securities'. All non-mandatory securities may be kept in buckets of future time frame for the purpose of determining their cash flows based on maturity of such security and intention of holding such security till the time of such maturity.

Based on its business model, Company has segregated the 1-30 days time bucket in the RBI's Statement of Structural Liquidity into granular buckets of 1-7 days, 8-14 days and 15-30 days for measuring liquidity. The Company shall strive that the net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days and 15-30 days shall not exceed 10%, 10% and 20% respectively. The cumulative net cash outflows across all other time buckets upto 1 year shall not exceed 30%.

Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches upto one year would be relevant since these provide early warning signals of impending liquidity problems,

the Company will monitor cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the Board/ the ALCO. The mismatches (negative gap) in 1 day to 1 year time buckets, i.e. the first five time buckets defined earlier in this section, in the normal course should be as prescribed by RBI.

INTEREST RATE RISK MANAGEMENT (IRR)

a) RBI has allowed NBFCs to price most of their assets and liabilities. Thus, there is a need for the financial system to hedge the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect Company's financial condition and the changes in interest rates affect the Company in a larger way. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively. There are many analytical techniques for measurement and management of Interest Rate Risk. However, in line with RBI guidelines, the traditional Gap analysis is considered as a suitable method to measure the Interest Rate Risk for the Company.

b) The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

i. within the time interval under consideration, there is a cash flow;
ii. the interest rate resets/re-prices contractually during the interval;
iii. dependent on RBI changes in the interest rates/Bank Rate;
iv. it is contractually pre-payable or withdrawal before the stated maturities.

c) The Gap Report would be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. All investments, advances, borrowings, purchased funds, etc. that mature/re-price within a specified timeframe are interest rate sensitive. Certain assets and liabilities receive/pay rates that vary with a reference rate. These assets and liabilities are re-priced at pre-determined intervals and are rate sensitive at the time of re-pricing. The Gaps would be identified in the following time buckets:

i. 1 day to 7 days
ii. 8 days to 14 days

iii. 15 days to 30/31 days (one month)
iv. Over one month and up to 2 months
v. Over 2 months and upto 3 months.
vi. Over 3 months and up to 6 months
vii. Over 6 months and up to 1 year
viii. Over 1 year and up to 3 years
ix. Over 3 years and up to 5 years
x. Over 5 years
xi. Non-sensitive

The various items of rate sensitive assets and liabilities and off-balance sheet items would be classified as per the RBI guidelines and reported as per the format provided by RBI. The quarterly Interest Rate Sensitivity Statement shall be filed with RBI within the specified timelines.

d) The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that Company has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs than RLAs. The Gap reports indicate whether the institution is in a position to benefit from rising interest rates by having a positive Gap (RSA>RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL>RSA). The Gap is, therefore, used as a measure of interest rate sensitivity

e) RBI has advised NBFC's to set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits shall have a relationship with the Total Assets, Earning Assets or Equity. The objective of the interest rate sensitive analysis will mainly be focused on interest rate gap for more than one year period. Since KSIDC has started bank borrowings only recently, the RSA would be much higher than RSL and consequently the RSA-RSL gap would be substantial. However, it is proposed to set the prudential limit to be approved by the Board viz. such positive/negative gap should not exceed 90% of Risk Sensitive Assets (RSA).

CAPITAL MANAGEMENT

The Committee will ensure maintenance and management of prudent capital levels for the Company to preserve its safety and soundness, to support desired balance sheet growth and realization of new business; and to provide a cushion against unexpected losses. Various prudential capital ratios will be monitored and reported by the management to the ALCO on a quarterly basis.

POLICY REVIEW

The Policy shall be reviewed on an annual basis. However, the policy can be reviewed at short notice depending on the exigencies/extraordinary situations, which may emanate during the course of business. Such extraordinary situations may include significant changes in Government/Reserve Bank of India policies, global/national macroeconomic conditions, financial performance, etc. This Policy shall remain in force till the next revision is carried out and disseminated.

****